

**EXECUTIVE SUMMARY  
MICHIGAN INSURANCE FRAUD SUMMIT  
DECEMBER 1, 2005  
LANSING, MICHIGAN**

The National Insurance Crime Bureau (NICB) and the Insurance Institute of Michigan (IIM) co-sponsored an Insurance Fraud Summit on December 1, 2005 in Lansing, Michigan. The purpose of the Summit was to identify the scope of the Michigan insurance fraud problem and its impact on Michigan consumers as well as review potential solutions. Over 300 persons attended the conference representing the insurance industry, legislators, regulators and law enforcement.

Members of the insurance industry and law enforcement discussed current laws and recommended measures to strengthen fraud control. Topics addressed included the impact of medical fraud, vehicle theft/fraud, vehicle cloning, and property fraud. Attorney General Mike Cox attended the Summit and announced plans to create a dedicated insurance fraud unit within the Attorney General's office to fight the problems associated with insurance fraud in Michigan.

A survey, commissioned by the two insurance-related organizations and conducted by Lansing-based EPIC•MRA, found that even though 23 percent knew someone who had committed fraud, only one-fifth of those reported the person to law enforcement authorities. Michigan residents are concerned about the problem of insurance fraud. Of those surveyed, 88 percent indicated that insurance fraud has a direct impact on them. It is estimated that insurance fraud cost the average American family an additional \$200-300 per year in insurance premiums.

This white paper was prepared outlining the various recommendations suggested by the industry and law enforcement. The paper will be used to support a number of pending legislative issues and to raise public awareness of the problem.

NICB is a not-for-profit organization that receives support from approximately 1,000 property/casualty insurance companies. The NICB partners with insurers and law enforcement agencies to facilitate the identification, detection and prosecution of insurance criminals.

IIM is a non-profit government affairs and public information association representing more than 90 property/casualty companies and related organizations operating in Michigan. IIM's purpose is to serve the Michigan insurance industry and insurance consumer as a focal point – for education, media, legislative and public information insurance issues.

**WHITE PAPER  
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**INTRODUCTION**

In mid-2005, an analysis of the insurance industry questionable claim referrals to the National Insurance Crime Bureau (NICB) indicated a significant increase in the number of Michigan reports related to medical fraud, vehicle theft/fraud and property fraud. Further research showed that Michigan was moving up in the Top Ten list of states with overall questionable claim referrals to NICB. NICB also found that there was growing interest in the state by organized crime rings. This analysis by NICB was the impetus for the Insurance Fraud Summit.

NICB officials asked the Insurance Institute of Michigan (IIM) to co-sponsor an Insurance Fraud Summit in order to define the problem for the public, legislators, regulators and law enforcement. By working together, NICB and IIM sought to learn more about the fraud environment and develop a strategy to make recommendations a reality.

Utilizing the NICB data, IIM and NICB developed a program that brought together the experts in selected fraud areas. Individual and panel presentations were created in the following areas:

- Overview of NICB Operations and Activities
- Fighting Fraud in Michigan: A Law Enforcement Perspective
- Industry Supported Programs to Fight Fraud
- National Picture – Overview of State Fraud Fighting Efforts
- Attorney General's Role in Fraud Prosecution
- Case Studies: The Insurance Industry Perspective – Medical Fraud & Property Fraud

Interest in the Summit was significant. Over 300 persons attended the full day conference.

## **OVERVIEW OF NICB OPERATIONS & ACTIVITIES**

Judy Fitzgerald, NICB Senior Vice President, outlined the primary types of fraud affecting the state of Michigan. Her analysis showed that Michigan is reflective of the national fraud problem and that Michigan is moving up in the Top Ten list of states as indicated by questionable claim referrals to NICB. Michigan ranks 6<sup>th</sup> in the nation directly behind California, New York, Texas, Florida and Illinois.

The lines of business most affected include private passenger auto liability, private passenger auto physical damage and homeowner's multi-peril. The area of the state most affected are the southeastern counties of Oakland, Macomb and Wayne.

In terms of PIP coverage, Michigan's No-Fault Personal Injury Protection, billing for services not rendered, solicitation of patients and upcoding of treatment are significant issues. NICB also sees workers compensation and PIP patients treating with the same suspect providers. Finally, there has been an influx of questionable medical providers from New York to Michigan.

Auto physical damage case investigations reveal that airbag fraud, glass claims fraud, chop shop activity and enhanced damage continue to be a problem. Vehicle theft and cloning are important issues as is the involvement of organized rings and terrorist groups.

While Michigan has a number of effective laws on the books, there is a need to create dedicated prosecutors at the state and local level along with an inter-agency, multi-jurisdictional medical fraud task force. Pending legislation in Michigan dealing with treatment billing guidelines and runners/cappers should also be supported.

## **FIGHTING FRAUD IN MICHIGAN: A LAW ENFORCEMENT PERSPECTIVE**

A panel presentation on fraud from the law enforcement perspective included:

- James Mitzelfeld, Assistant U.S. Attorney, Eastern District, Michigan
- Rod Hassinger, Assistant Prosecuting Attorney, Wayne County
- Robert Clark, Captain, Michigan State Police
- Michael Bouchard, Sheriff, Oakland County

The panelists agreed that fraud cases can be extremely complex and require many hours of investigation. Medical fraud cases are complicated, labor intensive and often require expert testimony. Unfortunately, there are not enough resources to fight fraud and it is not a priority in most communities.

In addition, while vehicle theft is down in some areas, it is still a significant issue and a priority for grantees of the Michigan Auto Theft Prevention Authority. Auto arson also continues to be of paramount concern.

Identity theft in Michigan continues to grow at a pace consistent with national trends. More attention and resources need to be devoted to this area.

Panelists identified a number of solutions including multi-jurisdictional cooperation, dedicated prosecutors, specialized court dockets to handle fraud cases, better industry record retention and tightened regulatory requirements for physical therapy clinics.

### **INDUSTRY-SUPPORTED PROGRAMS PANEL SOLUTIONS**

A panel presentation on arson, vehicle theft and vehicle cloning were the subjects of the industry-supported programs to fight fraud. Panelists included:

Terri Miller, General Manager, Michigan Auto Insurance Placement Facility  
Thomas Reilly, President, Michigan Arson Prevention Committee  
David Tjepkema, Program Coordinator, Auto Theft Prevention Authority  
Neal Wisner, Senior Special Agent, NICB

Arson fires related to homes, commercial properties and vehicles continue to fester in Michigan. While a number of significant industry programs have been created over the years including a Tip Hotline, industry and law enforcement are encouraged to do more even with limited resources.

Under the direction of the Auto Theft Prevention Authority, vehicle theft has decreased but Michigan still ranks 5<sup>th</sup> in the nation with over 50,000 thefts per year. The top metro theft areas are: Detroit-Warren-Livonia, Flint, Grand Rapids-Wyoming.

Vehicle cloning is a growing crime affecting consumers who purchase used vehicles. What unsuspecting buyers believe is a legitimate used car or truck could actually be a stolen vehicle.

Panelists recommended a number of solutions to deal with arson and vehicle cloning. Some of these included swift and sure consequences for perpetrators, publicity for convictions, proper documentation to confirm identity and vehicle ownership, increased oversight and enforcement for tow truck operators, scrap yards, auto repair facilities, national vehicle title standards and more prosecutorial and insurance industry representation at the Michigan Arson Prevention Investigation School.

### **NATIONAL PICTURE - OVERVIEW OF STATE FRAUD FIGHTING EFFORTS**

Howard Goldblatt, Director of Government Affairs, Coalition Against Insurance Fraud (CAIF) briefed the Summit attendees on state fraud bureau capabilities nationwide. He also discussed the research conducted by CAIF. Results indicated that the public continues to believe that insurance fraud is a victimless crime.

## **MIKE COX, ATTORNEY GENERAL OF THE STATE OF MICHIGAN**

Attorney General Mike Cox discussed the prosecutorial efforts of his office on numerous issues. Nationally, prosecutors are struggling with limited state resources and are looking for ways to improve and assist with their crime fighting capabilities. As a result of the Michigan Fraud Summit, Attorney General Cox announced a new initiative to combat fraud. Mr. Cox's office will work with the NICB and the Auto Theft Prevention Authority to pilot a program focused on dedicating prosecutors to insurance fraud cases.

## **INDUSTRY PANELS**

This panel was unique in that the industry panelists presented case studies that showed the egregious behavior of persons who committed insurance fraud against the panelists' companies. Panelists included:

### **Medical Fraud Panel**

Patricia Parr-Armelagos, Claim Section Manager, State Farm  
Robert Vogt, Manager, Fraud Awareness & Prevention, AAA Michigan  
James Hewson, Hewson & Van Hellemont, P.C.

### **Property Fraud Panel**

Wayne Delo, SIU Manager, Farm Bureau  
Phillip Yeager, Attorney, Hopkins, Curran & Smith, P.C.

The medical fraud panel noted that the present Michigan No-Fault system must be properly managed to be affordable and available. Unlimited versus capped benefits has had a dramatic impact in Michigan. As a result, individual claimants and organized rings are making numerous claims against insurers. This has an impact on multi-claim, multi-carrier insurance fraud investigations.

The property fraud panel concentrated on a commercial arson case whose claim was in excess of \$13 million dollars. The panel demonstrated how the Special Investigative Unit handled and denied the claim, working closely with local and state law enforcement agencies.

Panelists recommended stronger enforcement of laws, tougher penalties, increased number of state police arson investigators, training, awareness campaigns, an ATPA-like agency to address broader insurance and fraud issues, licensing of clinics with 50 percent + accident patients, semi-annual reporting to state agencies and passage of MI SB 397 and HB 4020. These bills deal with anti-runner legislation and treatment billing guidelines.

## **FINAL SUMMIT RECOMMENDATIONS**

NICB and IIM developed the White Paper for attendees, public policy makers and the general public. A complete list of the recommendations follows. We will work together to develop a strategy in support of a number of the recommendations. This is an excellent opportunity to combat some of the most pervasive and abusive practices that exist today in Michigan.

## **MICHIGAN INSURANCE FRAUD SUMMIT RECOMMENDATIONS**

### **NICB SOLUTIONS**

- **Dedicated Prosecutors: State & Local**
- **Establish Inter-agency, multi-jurisdictional Medical Fraud Task Force based on NICB model New York and Florida Medical Fraud Task Forces**
- **Legislative Initiatives:**
  - Enact SB 397, Anti-Runner Legislation – Sponsored by Senator Alan Sanborn
  - Enact HB 4020, Treatment Billing Guidelines – Sponsored by Rep. Roger Kahn
- **Media Relations and Public Awareness**

### **LAW ENFORCEMENT SOLUTIONS**

- **Multi-Jurisdictional Cooperation**
- **Insurance company personnel trained in identifying cases for criminal investigation and prosecution**
- **Specialized insurance investigative police units**
- **Prosecutors assigned to prosecute insurance fraud**
- **Specialized court dockets to handle fraud cases**
- **Better industry record retention**
- **Tightened regulatory requirements for physical therapy clinics**

### **INDUSTRY SUPPORTED PROGRAMS PANEL SOLUTIONS**

- **Swift and sure consequences for perpetrators**
- **Publicity for convictions**
- **Require more documentation to confirm identity and vehicle ownership to insure and register vehicles and obtain title documents**
- **Increased oversight and enforcement for tow truck operators, scrap yards, auto repair facilities**
- **Push for national vehicle title standards**
- **Have more prosecutors attend Michigan Arson Prevention Committee (MAPC) Fire Investigation School**
- **Invite insurance industry to MAPC Fire Investigation School**
- **Expand Auto Arson Law to include more municipalities**

### **INDUSTRY PANELS**

- **Enforcement of laws**
- **Tougher penalties**
- **Legislative support for SB 397 and HB 4020**
- **An ATPA-Like agency to address broader insurance and fraud issues**
- **License clinics with 50 percent + accident patients**
- **Semi-annual reporting to state agencies**
- **Increased number of Michigan State Police Arson Investigators**
- **Public awareness campaign**
- **Training**

### **SUMMIT ATTENDEE RECOMMENDATION**

- **Police academy training of police officers to include mandatory instruction on insurance fraud.**